

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6601**

**BILL NUMBER:** HB 1094

**DATE PREPARED:** Dec 11, 2000

**BILL AMENDED:**

**SUBJECT:** Income Tax Deduction for Military Income.

**FISCAL ANALYST:** Brian Tabor

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**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill increases from \$2,000 to \$15,000 the amount of the Adjusted Gross Income (AGI) Tax deduction available for income received by an individual for service in an active or reserve component of the armed forces of the United States.

**Effective Date:** January 1, 2001 (retroactive).

**Explanation of State Expenditures:** The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions and computer programs to incorporate the deduction increase. These expenses can be absorbed given the Department's existing budget.

**Explanation of State Revenues:** *The additional revenue loss from increasing the deduction from \$2,000 to \$15,000 is estimated to be between \$11.3 M and \$13.7 M in FY 2002. In FY 2003, the impact is estimated to be between \$11.2 M and \$13.6 M.*

This bill increases the current military service deduction for all taxpayers who receive military service income. The current deduction of \$2,000 would be increased to \$15,000 by this proposal. This increase is effective for tax years beginning January 1, 2001.

**Relevant Data:** Based on 1998 DOR Individual Income Tax data, approximately 35,000 taxpayers claimed the current deduction. These individuals deducted approximately \$68.4 M in adjusted gross income which resulted in a state revenue loss of \$2.3 M in FY 1999. The additional \$13,000 deduction for all taxpayers receiving military service income is expected to reduce Individual Income Tax revenue by \$11.3 M to \$13.7 M in FY 2002 and between \$11.2 M and \$13.6 M in FY 2003.

The fiscal impact may be slightly less in subsequent years as the number of individuals taking this deduction has been declining. From 1997 to 1998, the total decreased by less than 1%.

Individual Adjusted Gross Income Tax revenue is deposited in the General Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Counties imposing any local option income taxes would experience a minimal reduction in revenue generated through these taxes.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties imposing a local option income tax.

**Information Sources:** Indiana Department of State Revenue.